

# Development of islamic banking and finance in singapore

[Finance](#), [Banking](#)



In the context of economy, Singapore is a trade-oriented market economy that basically practices conventional banking system. However, the Islamic banking system has slowly entering the Singapore banking system since the year 2005. The Islamic banking system was not rapidly executed nor accepted because the conventional banking sector has developed well over the period of time. The Monetary Authority of Singapore (MAS) is the responsible entity in helping the progress of Islamic finance in the country. The table provided below is to show some of the comparison between conventional banking system and Islamic banking system Singapore.

Additional buyer's stamp duty needs to be paid off by certain groups of people that want to obtain real estates. Additional buyer's stamp duty for certain Islamic transactions involving real estates is removed. Using the usual structures used for tax treatment in conventional banking system. Using Maharajah, Muhammad, and 'Jar WA lasting structures on the tax treatment for Islamic financing since 2006. Contribute 75% for annual growth rate of Singapore. Contribute for annual growth rate of Singapore since established and still growing at a fast rate.

**BACKGROUND** Singapore is a highly developed trade-oriented market economy. Singapore economy has been ranked as the most open in the world, least corrupt, most pro- business, with low tax rates (14. 2% of Gross Domestic Product, GDP) and has the third highest GDP in the world; in terms of Purchasing Power Parity (PPP), of \$318. 9 billion in 2011. Singapore initiated its Islamic finance Journey at the start of the millennium with the watershed decision to give preferential tax treatment for Islamic finance.

The Singapore government, in tabling its 2002 budget, announced fiscal incentives under the Financial Sector Incentive (IFS) scheme after realizing the great potential of Islamic finance, especially as a reliable alternative assets class. These fiscal incentives have prompted the establishment of several Islamic window operations in the republic, including Standard Chartered Bank, HASH, COB, COMB and Mbabane. In 2005, the Monetary Authority of Singapore (MAS) refined its regulations to facilitate the growth of Islamic finance. It also removed the additional stamp duties for certain Islamic transactions involving real estate.

To contribute to the development of Islamic finance, MAS joined the Islamic Financial Services Board (IFS) and has participated actively in its various working groups and task forces in areas like supervisory review, Islamic money markets, capital adequacy, liquidity management and solvency requirements for tactical operations. In 2006, clarifications were made on the tax treatment for Islamic financing using Maharajah and Sarah with Assistant structures. Singapore-based banks began to offer Maharajah investments and Maharajah financing.

In 2007, retail Maharajah investors were accorded the same regulatory protection as conventional depositors. In 2008, a concessionary tax rate was introduced for qualifying Shari-compliant lending, fund management, tactical and retrieval activities. MAIN PRODUCT Penthouse Singapore is having small domestic market and competition compare to other country, it can still position itself in a niche market in the region. In Islamic finance area,

Singapore, through the integrated financial and economic development, can create new opportunities for Islamic finance and other financial products.

Monetary Authority of Singapore (MAS) has recognized the characteristic of Singapore policy approach has been to align tax treatment of Islamic contracts with the treatment of conventional financing contracts. Singapore has refined its regulatory framework and tax structures over the years to strengthen its Islamic Finance. In the recent years, Singapore has their eyes on Islamic Finance. There are four profit sharing financial products offered by Islamic financial institution in Singapore which are muskrat, maturated, maharajah and Sarah.

Islamic financial institution in Singapore also offers insurance product namely Tactful. The Monetary Authority of Singapore (MAS) gave its approval to bank to engage in non-financial activities such as commodity trading to promote maharajah transactions. Maharajah is also commonly used in home financing and car financing. Islamic insurance or Tactful is the insurance products of Islamic finance. With more than S\$50 million Tactful funds, the Islamic insurance or Tactful has been successful in Singapore. MAS has issued SKU program to provide Shari compliant regulatory assets.

The Joint arrangers of the SKU program are the Standard Chartered Bank and The Islamic Bank of Asia (B Asia) and the legal counsel advising the transactions is Allen & Eggshell. The chairman of B Asia, Abdullah Has USAF has stated that this program is significant for being the first reverse inquiry Sarah based SKU from such a high quality issuer in the world and it reflects

Singapore growing competence in support functions for Islamic finance, such as providing the required legal services. Besides that, Singapore has been introduced to the Singapore Unit Trusts Ethical Growth Fund that complies with principle of Shari by Mbabane.

Moreover, in May 2008, Singapore was the first-listing of a Shari-compliant exchanged traded fund FEET). MASS joined the Islamic Financial Services Board (IFS) and participated in various working groups and task forces to contribute to the development of Islamic PROMOTING & MARKETING The global Islamic finance industry has grown to reach some US\$1 . 3 trillion in total asset size, Singapore has remained committed in introducing Islamic Finance to the island's monetary system when the Monetary Authority of Singapore (MASS) established its S\$200 million SKU AAA-Sarah Trust Certificate Issuance Program.

The program marked the highest credit quality in the first Islamic finance market of SKU. To view it in a larger context, it is an extremely huge effort from Singapore Monetary Authority to foster the growth of the country Islamic Finance market. This SKU AAA-Sarah Trust Certificate Issuance Program is one part of a bilateral approach of providing both a favorable regulatory framework and high quality liquidity assets for financial institutions to commerce Islamic Finance transactions, with the main objective of promoting the Islamic Finance market in Singapore.

The government's aim is to control the country strength in wholesale banking, asset management and UAPITA markets to allow Islamic financial

service to prosper, in conjunction with the already established conventional financial services available in the island. According to the speech given by Assistant Managing Director of Monetary Authority of Singapore (MASS), Mr. Eng Sam Sin, the authority hosted initiatives to create an encouraging environment for Islamic financial activities to grow in Singapore.

Their basic approach was to level the playing field between Islamic and conventional finance as many of the same risks can be found in both. Since 2004, their body has revived clarifications for an increasing number of Shari-compliant financing arrangements and had worked with the industry and other government agencies to ensure that Islamic financial players and end-users are not disadvantaged in terms of taxation. In response, the range of Islamic financial products available in Singapore has expanded beyond Shari-compliant credit facilities such as SKU.

There has been a steady issuance of Sukks and they were aware there are more incoming. Tax incentives were actively introduced by Singapore government to harmonise the tax treatment of certain Shari-compliant financing instruments including the imposition of double stamp duties in Islamic transactions involving real estate in Singapore, and providing the same concessionary tax treatment to income from SKU. In Singapore 2013 Budget, Singapore government has stated about the widening of Financial Sector Incentive (IFS) Scheme which was forecasted to bright a new light to the island's already established Islamic Finance market.

Qualifying Islamic Finance activities under the FSML-lilacs Finance award will be incentive at a 12 percent concessionary tax rate. In 2001, Malaysia's largest bank, Mbabane, started Islamic banking in Singapore with the introduction of Singapore Unit Trusts Ethical Growth Fund while in 2006, the bank introduced a Shari-compliant online savings account and savings UCM checking account that is also complied with the principles of the Shari. Another significant move in the development of Islamic finance was through education.

The Singapore Islamic Scholars and Religious Teachers Association (PEERAGES) has announced that some Islamic religious scholars would be trained in banking and finance to assist Singapore aim of becoming a hub for Islamic Finance. RECEPTION & PROBLEMS Singapore financial markets start to see a gradual increase in the Islamic financial products. The global Islamic financial markets are estimated to be valued at approximately IIS\$ 1 trillion and also are expected to grow rapidly at an annual rate of 25 per cent. In 2009, the Monetary Authority of Singapore (MASS) is S\$ 200 million through SKU AAA-Sarah Trust Certificate Issuance Program.

On the next year, the financial market of the Khans National Beebread's increases to S\$ 1. 5 billion through SKU Wake. The MASS has adopted a fractional approach by insert new revisions relating to Islamic banking and finance to develop the regulatory framework of Islamic banking and finance in Singapore. They abide the legislation, the Banking Act and Securities and Futures Act and regulations to accommodate and focus the regulation of

Islamic banking and finance within the conventional banking in Singapore without any specific reference to Shari.

Similarly, the income tax legislation and regulation in Singapore have been adjusted in order to establish a level playing field through practicing same tax treatments and incentives as it is part of conventional financing arrangements. However, there are some barrier that needs to overcome before Singapore developed as an international financial centre for Islamic banking and finance. Firstly, there is still a lack of friendliness of issuers and investors in Singapore with the detailed components and mechanics of Islamic financial products.

Thus, they need to increase the financial incentives offered to issuers to attract them to invest more time and resources in practicing themselves on Islamic financial products. Secondly, Islamic banking and finance legal framework in Singapore has not been tasted. While in Malaysia, the Central Bank of Malaysia Act 2009 renders the Central Bank of Malaysia's Shari Advisory Council as the sole authority relating to Islamic banking and finance in Malaysia.

Conversely, due to Singapore position as a non-Muslim country, the legislation and regulations touching on Islamic financial instruments are sterilized from religious reference. Singapore also did not have a party that can compliance with the application of Shari principles in the Islamic banking and finance sector. Natural advantages that are given in Singapore is due to



its strong banking regulatory framework, political ability and high-skilled professional workers.